

- (c) All non-physician services and supplies provided to hospital inpatients, whether provided directly by the hospital or by a vendor, shall be considered services and costs related to patient care.
- (d) All costs of services and supplies purchased from a vendor shall be subject to review for reasonableness by the Division.

#### 6.15 Medicaid direct patient care

Medicaid direct patient care is the provision by a hospital of medically necessary and appropriate health care services to a Medicaid recipient.

#### 6.16 Paid taxes

Taxes are monies paid to a governmental unit for conducting business related to direct patient care within its jurisdiction. Taxes are a financial element of the Preliminary Cost Base except for Federal, State, or local income, excess profit, or franchise taxes, taxes on property not used for direct patient care, and interest and/or penalties paid thereon. Taxes related to financing of operations through the issuance of bonds, property transfers, issuance or transfer of stocks, and the like, are not classified as taxes; rather, they shall be amortized or depreciated with the cost of the security or asset. Sales and real estate taxes paid by a hospital in the provision of Services Related to Patient Care shall be included as Paid Taxes. All sales and real estate taxes for Services Related to Patient Care shall be reported in the General Administrative Services cost center and also reported separately from other

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classifications of expense. Employment related taxes, such as FICA, Unemployment Compensation, and Workman's Compensation, shall be classified as employee fringe benefits for all employees, including hospital-based physicians. Monies received by a hospital which chooses to self-insure in lieu of payment of Unemployment Compensation taxes and the associated administrative costs of such a self-insurance program are included as financial elements and classified as employee fringe benefits, if such monies are reasonably related to the hospital's unemployment compensation experience.

#### 6.17 Educational, research and training program

- (a) Educational program costs are the costs incurred by a hospital in the provision of a formally organized, planned program of study in a health service profession approved by an organization which recognizes the professional stature of health services education programs at the national level, net of any grants, tuition, and/or donations received for this purpose. To the extent that approved residencies for primary care physicians require training in ambulatory care facilities associated with a hospital, such reasonable expenses are included. Costs incurred by a hospital for direct patient care services rendered by medical, nursing, or allied health school personnel through an approved program in the hospital are financial elements provided that such costs would be included as financial elements if directly incurred by the hospital rather than under such arrangements. If not salaried or paid a stipend by the hospital, students shall not be considered as functioning in an

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employee capacity and thus no dollar amount shall be imputed and reported for their services.

- (b) Research program costs are those costs incurred by a hospital in systematic, intensive study directed toward a better scientific knowledge of the provision of health care services in a program of the National Institutes of Health or other program approved by the Commission. Specific purpose grants or other funds received to offset the costs of such programs from the Federal government, New Jersey State government, New Jersey Heart Association, or other governmental or charitable organizations sponsoring such programs are applied to offset Costs Related to Medicaid Patient Care.
- (c) Training program costs are the costs of providing to employees orientation or other health care related training, including inservice and on-the-job training, primarily designed to benefit the hospital by helping employees better perform their assigned tasks. The costs of providing such training shall be classified as administrative expense. Costs of training and/or educational programs which primarily benefit the employee (e.g. tuition reimbursement programs) rather than the hospital shall be classified as employee fringe benefits and shall be reported as such in the appropriate cost centers.

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6.18 Capital facilities

(a) Buildings and Fixed Equipment:

1. The cost of Capital Facilities used for Services Related to Medicaid Patient Care, except for Major Moveable Equipment as defined in sections 6.19, are included as financial elements for all hospitals through a Capital Facilities Allowance.
2. The amount of Revenue Related to Patient Care prospectively included for Capital Facilities in a hospital's Schedule of Rates is to be funded in the form of cash and/or investments in the Internally Generated Plant Replacement and Renovation Fund (Plant Fund).

6.19 Major moveable equipment

- (a) Major Moveable Equipment includes straight-line depreciation costs on owned or capitalized leased Major Moveable Equipment plus a Price Level Depreciation Allowance in excess of this historical depreciation and operating lease/rent payments relative to Major Moveable Equipment utilized for Services Related to Patient Care. Leased Major Moveable Equipment is to be capitalized or reported as operating lease costs in accordance with Generally Accepted Accounting Principles.

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1. Major Moveable Equipment Costs so determined are reported as a Natural Classification of Expense of each cost center (refer to Section 6.22).
2. Major Moveable Equipment utilized by more than one functional cost center must be assigned to the using cost centers based on an estimate of each center's utilization.
3. Capitalized repair and installation costs shall be included with the cost of the equipment.
4. Interest associated with capitalized financing purchases or leases shall be excluded and reported as a reconciliation, since the Internally Generated Major Moveable Equipment Replacement Fund is established to provide sufficient funds to replace purchased equipment or meet installment payments for financed equipment (both principal and interest).

6.20      Reserved

6.21      Reserved

6.22      Natural Classifications of Expense

- (a) Salaries and wages, including stipends, payable in cash, for services performed by an employee for a hospital (except a physician), including compensation for time not worked such as on call, vacation,

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holiday and sickpay or the monetary value assigned to direct services provided to the hospital by a person performing in an employee relationship are considered remuneration. Monetary value shall not be assigned to the services of students or other volunteer workers. All labor costs (including deferred income which qualifies as pension costs) shall be included in the accounting period during which the employee accrues the payment for their services.

- (b) Physician Compensation - Hospital Component: That portion of compensation for a physician's (M.D., D.O., D.D.S./M.D.) activities, provided through agreement with a hospital, representing services which are not directly related to an identifiable part of the medical care of an individual patient is the hospital component of physician compensation, and must be split between salaries and fees. Hospital services include teaching, research conducted in conjunction with and as part of patient care (to the extent that such costs are not met by special research funds), administration, general supervision of professional or technical personnel, laboratory quality control activities, committee work, performance of autopsies, and attending conferences as a part of the physicians' hospital service activities. The allocation of physician compensation between hospital and professional components and documentation thereof is to be in accordance with Medicare HIM-15, section 2108 for provider component.
- (c) Physician Compensation - Professional Component: That portion of compensation for a physician's services provided through agreement

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with a hospital pertaining to activities which are directly related to the medical care of an individual patient is the professional component of physician compensation (i.e., remuneration for the identifiable medical services by the physician which contribute to the diagnosis of the patient's condition or to his treatment) and must be split between salaries and fees. The allocation of physician compensation between hospital and professional components and documentation thereof is to be in accordance with Medicare HIM-15, section 2108.

(d) Employee Fringe Benefits: Employee Fringe Benefits are amounts paid to or on behalf of an employee, in addition to direct salary or wages, and from which the employee or his beneficiary derives a personal benefit before or after the employee's retirement or death.

1. Fringe Benefits associated with physicians shall be reported with physician's compensation.
2. Pensions, annuities and deferred income arrangement costs for past and current services shall be accounted for and reported in accordance with Employee Retirement Insurance and Security Act (ERISA) and Internal Revenue Service (IRS) requirements. Employee Fringe Benefits include: FICA; State and Federal unemployment insurance; disability insurance; life insurance; employee health insurance; retirement (net of actuarial and realized gains on the investment of related funds); Workman's

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Compensation insurance; other payroll related employee benefits; tuition reimbursement and other training; moving expenses of new employees of a non-recurring nature; the cost of providing free or subsidized meals or cost to the employee at less than charges to employees; employee parking lot costs net of any revenue received for operation of the facility, and other non-payroll employee benefits.

3. The cost of providing health care services to employees shall be included in classifications of expense in various cost centers providing the funds. Such costs will be factored into the Preliminary Cost Base and Schedule of Rates by certain revenue adjustments. Where a hospital elects to self-insure for Workman's Compensation or unemployment insurance, costs reported shall be the amounts set aside for that accounting period plus associated administrative costs, where a separate fund was been established, to the actual amounts of claims paid during the accounting year if a fund is not established. Where a hospital provides free or subsidized health care services to employees or physicians, the hospital's customary charges shall be generated and accounted for separately as personnel health allowances.
4. In order to preserve comparability of hospital expenses for provision of direct patient care, purchased employee health insurance expenses shall be reported as a separate cost center and shall not be distributed to the labor costs of each center.

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Employee Fringe Benefits shall be assigned to the cost center in which the employee's compensation is reported on the following bases:

<u>Benefit</u>	<u>Basis of Assignment</u>
FICA-non-physician and physician	Direct Cost
All other Payroll Related Benefits including Unemployment Insurance Disability Insurance, Workman's Compensation and Pension and	
Retirement	Salaries
Life Insurance	Salaries or FTEs
Employee Education and Training	FTEs
Room and Board	FTEs
Cafeteria	FTEs
Parking Lot	FTEs

(e) Other Direct Expenses: Other Direct Expenses include all other direct non-capital operating expenses not classified elsewhere and reported for Costs Related to Patient Care. Other Direct Expenses include the following utilities; non-physician professional fees;

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licensing fees; dues assessments; travel; postage; printing and duplicating costs; outside training sessions; subscriptions; paid taxes as defined in Section 6.16; and insurance, other than employee fringe benefit insurance programs.

**6.23 Medical and Surgical Supplies**

- (a) Medical and Surgical Supplies are medically necessary supplies, appliances, and minor moveable equipment (as defined in Section 6.8) furnished by and used at a hospital for the care and treatment of a patient during a patient's episode of hospital care and reported. Medically necessary supplies exclude all supplies furnished by a hospital but used by a patient after his episode of care except those items where it would be medically unreasonable to limit the patient's use of the item to his episode of hospital care (see Section 6.8 for the reporting of minor moveable equipment). The fair market value of donated Medical and Surgical Supplies is assigned to this classification if the commodity would otherwise be purchased by the hospital.
- (b) Medical and Surgical Supplies include prosthetic devices, surgical supplies, anesthetic materials, oxygen and other medical gases, intravenous solutions, drugs including medically prescribed food supplements, biologicals, admission kits furnished by the hospital

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